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BCOC-137

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Content

CORPORATE ACCOUNTING

S.No.	Chapterwise Reference Book	Page

■■

Sample Preview of the Solved Sample Question Papers

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QUESTION PAPER

June – 2024

(Solved)

CORPORATE ACCOUNTING

BCOC-137

Time: 3 Hours] *[Maximum Marks : 100*

***Note:** Answer any **five** questions. All questions carry equal marks.*

Q. 1. 'X' Ltd. issued 40,000 equity shares of ₹ 10 each payable as follows:

On application ₹ 3 per share, on allotment ₹ 3 per share, on Ist call ₹ 2 per share and on IInd call ₹ 2 per share.

Application were received for 60,000 shares. Allotment was made pro-rata to the applicants for 48,000 shares, the remaining applications were rejected. Money overpaid on application was utilized towards sum due on allotment.

Shri Ramdas, to whom 1,600 shares were allotted, failed to pay the allotment, Ist call and IInd call money. These shares were forfeited after IInd call was made. These shares were sold to Shri Banarjee as fully paid up at ₹ 8 per share.

Show the Journal entries to record the above transactions and prepare a Balance Sheet.

Ans. Here is the solution to the problem, broken down step by step, followed by the journal entries and Balance Sheet for 'X' Ltd.

1. Journal Entries: Below are the journal entries to record the various transactions:

***(a)* Application money received:** The company received applications for 60,000 shares, but only 48,000 shares were allotted. The excess received on 12,000 shares (60,000 – 48,000) is adjusted against allotment.

Bank A/c Dr. (60,000 × 3)		1,80,000	
To Share Application A/c			1,80,000

***(b)* Allotment made for 48,000 shares:** The amount on application (Rs. 3 per share) for the 48,000 allotted shares is transferred to Share Capital, and the excess application money is adjusted towards the amount due on allotment.

Share Application A/c (48,000 × 3)	Dr.	1,44,000	
To Share Capital A/c			1,44,000
Share Application A/c (12,000 × 3)	Dr.	36,000	
To Share Allotment A/c			36,000

***(c)* Allotment money due (Rs. 3 per share for 40,000 shares):**

Share Allotment A/c (40,000 × 3)	Dr.	1,20,000	
To Share Capital A/c			1,20,000

***(d)* Allotment money received (excluding Ramdas' 1,600 shares):** Ramdas did not pay for the allotment, so the amount received is adjusted for the remaining 38,400 shares. Also, Rs. 36,000 (excess on application) has already been adjusted.

Bank A/c [(40,000 – 1,600) × 3] – 36,000	Dr.	49, 200	
To Share Allotment A/c			49, 200

***(e)* First call money due (Rs. 2 per share for 40,000 shares):**

Share First Call A/c (40,000 × 2)	Dr.	80,000	
To Share Capital A/c			80,000

***(f)* First call money received (excluding Ramdas' 1,600 shares):**

Bank A/c	Dr.	76,800	
To Share First Call A/c			76,800

***(g)* Second call money due (Rs. 2 per share for 40,000 shares):**

Share Second Call A/c (40,000 × 2)	Dr.	80,000	
To Share Capital A/c			80,000

***(h)* Second call money received (excluding Ramdas' 1,600 shares):**

Bank A/c [(40,000 – 1,600) × 2]	Dr.	76,800	
To Share Second Call A/c			76,800

***(i)* Forfeiture of Ramdas' shares (1,600 shares):** Ramdas failed to pay allotment, first call, and second call money. The amount forfeited includes Rs. 4 per share paid on application (Rs. 3) and allotment (Rs. 1 adjusted from excess application).

Share Capital A/c (1,600 × 10)	Dr.	16,000	
To Share Allotment A/c (1,600 × 2)			3,200
To Share First Call A/c (1,600 × 2)			3,200
To Share Second Call A/c (1,600 × 2)			3,200
To Share Forfeiture A/c [(1,600 × 4) – (3,200 + 3,200 + 3,200)] =			6,400

***(j)* Reissue of forfeited shares (1,600 shares at Rs. 8 per share):**

Bank A/c (1,600 × 8)	Dr.	12,800	
Share Forfeiture A/c (1,600 × 2)	Dr.	3,200	
To Share Capital A/c			16,000

***(k)* Transfer of remaining forfeiture balance to Capital Reserve:** The remaining balance of forfeiture for the 1,600 shares, after reissue, is transferred to capital reserve.

Share Forfeiture A/c	Dr.	3,200	
To Capital Reserve A/c			3,200

2. Balance Sheet of 'X' Ltd. (after all transactions) Balance Sheet (as on Date)

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Share Capital			
Authorized Share Capital (40,000 shares at Rs. 10 each)	4,00,000	Bank	4,71,600
Issued Share Capital (40,000 shares at Rs. 10 each)	4,00,000	Capital Reserve	3,200
Less: Forfeited Share Capital (1,600 shares at Rs. 10 each)	(16,000)		
Paid-up Share Capital (38,400 shares fully paid up)	3,84,000	Total	4,74,800
Capital Reserve	3,200		
Total	3,87,200		

Note: Bank balance includes the amount received from all calls and the reissue of forfeited shares.

Q. 2. What is meant by Buy-back of shares? Mention the guidelines issued by SEBI in this regard.

Ans. Ref.: See Chapter-3, Page No. 34, 'Buy-back of Shares and Conditions for Buy Back of Shares', 'SEBI Guidelines'.

Q. 3. What do you mean by cash flow statement? What are the uses of cash flow statement?

Ans. Ref.: See Chapter-8, Page No. 100, Q. No. 5 and Page No. 97, 'Uses of Cash Flow Statement'.

Q. 4. Explain the following terms in case of Holding Company:

***(a)* Cost of control.**

Ans. Any excess of the cost to the parent of its investment in a subsidiary over the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, should be described as goodwill or "cost of control" to be recognised as an asset in the consolidated financial statements. when the cost to the parent of its investment in a subsidiary is less than the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, the difference should be treated as a capital reserve in the consolidated financial statement.

***(b)* Post-acquisition profits.**

Ans. Holding Company's shares in post-acquisition profits is treated as revenue profit. It is added to the Profit and Loss A/c of the Holding Company.

Post acquisition Profits = (Closing Profit and Loss A/c + Closing General Reserve – Preliminary Expenses) – (Pre-acquisition profits).

***(c)* Pre-acquisition profits.**

Ans. The subsidiary company's reserves and profits must be divided into pre-profits (capital profits) and post-profits (Revenue profits) on the basis of the date of acquisition of the shares. Holding company's share in pre-acquisition profits is treated as the capital profit and is used for the purpose of calculation of Goodwill/Capital Reserve.

Sample Preview
of
The Chapter

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CORPORATE ACCOUNTING

BLOCK 1: COMPANY ACCOUNTS-I

General Introductions 1

INTRODUCTION

In today's start-up culture, company form of organisation is quite famous and has become the first choice of the entrepreneurs. A company as we all know is a separate legal entity which is formed with the aim of doing business to generate profit, and is registered under The Companies Act, 1956. Here you will get to know the basic aspects related to the company form of organisation, steps that are involved in the formation of the company and allotment of shares. A share as we all know is a transferable unit which provide limited liabilities to its holders or the members of the company.

CHAPTER AT A GLANCE

MEANING OF COMPANY

A company is defined as a separate legal entity which is formed when 2 or more people voluntary decide to come together to engage in business to earn profit and take necessary steps to get it registered under its relevant Act.

Section – 3 of The Companies Act, 1956 defines a company as "A company formed and registered under this Act or an existing company". An existing company is referred to as a company formed and Registered under any of the formed company's Act. This definition does not help us to understand the true concept and nature of the company.

According to Justice Marshall, "A corporation is an artificial being, invisible, intangible and existing only in the contemplation of law".

In the same manner, Lord Justice Hanay has defined a company as "an artificial person created by law with a perpetual succession and a common seal".

A common thread running through the various definitions of 'company' is that it is an association of persons created by law as a separate body for a special purpose. At the same time, definitions have laid down certain characteristics of a corporate organisation, which make it out as a separate and unique organisation which enables the people to contribute their wealth to the capital of the company by subscribing to its shares and appointing elected representatives to carry out the business.

Special Features of a Company

1. It's a voluntary association of people.
2. Has a separate legal entity. Thus, its existence or identity is separate from its owners.
3. It has a limited liability. The liability of a firm is either limited by shares or limited by guarantee.
4. A company has a perpetual succession. It is an artificial person created by law and thus it never dies. People may come and go but a company will continue to run forever. A company never gets effected by change in its ownership, death or insolvency of its member. It continues to exist forever in its own state.
5. Has a common seal.
6. The shares of the company are freely transferable. Anyone can buy and sell the shares of a company in the open market.
7. It has the capacity to sue any individual or an entity, and be sued by them for its action in its own name.

Kinds of Companies

On the basis of liability of shareholders or members, companies can be divided into 3 categories:

(a) **Companies limited by shares:** In it, the liability of the members of the company is limited to the amount unpaid on the shares (if any).

(b) **Companies limited by guarantee:** In it, the liability of the members of the company is limited to the amount which they had undertake to contribute in case of the winding up of the business.

(c) **Unlimited Companies:** In it, the liability of the members of the company is not limited to any point.

They will have to regularly contribute necessary amount in order to pay off the company's debt and liabilities.

On the basis of number of members a company can be divided into 2 categories:

***(a)* Private Company:** These companies can be formed by at least two individuals having minimum paid–up capital of not less than Rupees one lakh. As per the Companies Act, 1956 the total membership of these companies cannot exceed 50. The shares allotted to its members are also not freely transferable between them. These companies are not allowed to raise money from the public through open invitation. They are required to use "Private Limited" after their names. The examples of such companies are Combined Marketing Services Private Limited, Indian Publishers and Distributors Private Limited, Oricom Systems Private Limited, etc.

***(b)* Public Company:** A company, which doesn't fall under the category of a private company is a public company. So, a public company is a one which allows free transfer of shares, has no limit on the number of members and is not prohibited to invite the general public to subscribe to its shares and debentures.

DISTINCTION BETWEEN A COMPANY AND A PARTNERSHIP

The major difference between companies and partnerships may be considered under the following headings:

(1) Formation: A company is incorporated by registration under the Companies Act, 1956. But a partnership is established by agreement which may be expressed or implied from the conduct of the partners and is subject to the Indian Contract Act, 1872 or the Indian Partnership Act, 1932. No special forms are required, though partnerships articles are usually written.

(2) Status at Law: A company is considered to be an artificial legal person with perpetual succession. Thus a company may properly, make contracts and sue and be sued. It is an entity distinct from its members. But a partnership is not a legal though it may sue and be sued in the firm's name. Thus the partners own the property of the firm and are liable for the contracts of the firm jointly as well as severally.

(3) Transfer of Shares: Shares in a company are freely transferable unless the company's constitution otherwise provides; restrictions may, of course, appear in the articles of a private company. But a partner can transfer his shares in the firm, but the assignee does not thereby become a partner and is merely entitled to the assigning partner's share of the profits.

(4) Number of Members: A private company must have at least two members and a maximum of 50 members. But a partnership firm cannot consist of more than 20 persons (10 persons in case of banking business).

(5) Management: Members of a company are not entitled to take part in the management of the company unless they become directors. But in Partnership business the partners are entitled to share in the management of the firm unless the articles provide otherwise.

(6) Agency: A member of a company is not an agent of the company or that of other members, and he cannot bind a company by his acts. In case of partnership each partner is an agent of the firm and his partners, and may bind the firm by his acts.

(7) Liability of Members: The liability of a member of a company may be limited by shares or by guarantee. The liability of a partner is unlimited.

(8) Powers: The affairs of accompany are closely controlled by the Companies Act, 1956 and the company can only operate within the objects laid down in the memorandum of association, though these can be altered to some extent by special resolution. In case of partnership business partners may carry on any business as they please so long as it is not illegal and make whatever arrangements they wish with regard to the running of the firm from time to time.

(9) Termination: No member of a company can wind it up. Death, bankruptcy or insanity of a member does not mean that the company must be wound up. A partnership may be dissolved by any partner at any time unless the partnership is entered into for a fixed period of time. A partnership is also dissolved by the death or bankruptcy of a partner.

FORMATION OF A COMPANY

***(i)* Filing Of Basic Documents:** A company is a legal entity formed to conduct business or other activities in the name of the association. Because it is incorporated, it has a legal personality distinct from those of its members. There are three basic documents, which are prepared and filed with the registrar during the formation of a company. These are:

(1) Memorandum of Association (MOA)
(2) Articles of Association (AOA)
(3) Prospectus.

Out of these three documents, MOA and AOA are filed with the Registrar of Companies before the registration along with other supporting documents while asking for certificate of incorporation. The prospectus is issued to the public at the time of subscription to capital. Of course, a copy of the prospectus is submitted to the registrar also. In order to form a company, you will need to send the above said documents, together with the registration fee.

Memorandum of Association: The Memorandum of Association is the principal document in the formation of a company. It is called the charter of the company. It contains the fundamental conditions upon which the company is allowed to be incorporated or registered. It defines the limitations of the powers of the company. The purpose of memorandum is to enable the shareholders, creditors and those who deal with the company to know what its permitted range of activities or operations is. It defines the relationship of the company with the outside world.

***(ii)* Certificate of Incorporation:** The registration of the company is mandatory before starting its operation. According to Sullivan, Arthur, Steven M., Sheffrin (2003). "A certificate of incorporation is a legal document relating to the formation of a company or corporation. It is a license to form a corporation issued by state government." A company is a separate legal entity governed by the Companies Act, which conducts activities on its own behalf and is distinct from the persons who own and control it. The shareholders are the owners and control the company, but their liability in relation to the company's creditors is limited. Incorporation is the process by which the company is entered on the register at the Companies Registry, and thereby comes into existence as a separate legal person. Once all the basic documents have been filed and they are found to be in order, the Registrar of Companies will issue Certificate of Incorporation of the Company. This document is the birth certificate of the company and is proof of the existence of the company. A Certificate of Incorporation will be sent to the company by the Companies Registry on first incorporation and on any change of name. Once this certificate is issued, the company cannot cease its existence unless it is dissolved by order of the Court.

ALLOTMENT OF SHARES

Allotment means the assigning or the distribution of our shares to all those who had placed an interest to buy it, *i.e.*, the applicants. The process of allotment leads to the creation of a valid binding contract between the company and the shareholders.

Requisites of a Valid Allotment

(1) A minimum subscription amount must be specified in the prospectus of the company by its directors.

(2) In case a minimum subscription is not received, the entire amount raised from the public must be refunded to them within 120 days from the day of the issue of the prospectus without any interest. If this period extend 130 days then an interest of 6% per annum becomes payable on that amount.

(3) Allotment of shares cannot be initiated until the beginning of the 5th day from the date of the issue of the prospectus.

(4) A company offering its shares or debentures to the public via prospectus needs to get themselves listed on one or more recognised stock exchanges, i.e. NSE or BSE.

(5) The result of allotment should be conveyed to the applicant in due time.

(6) Entire application money, not less than 5% of nominal capital must have been received in cash.

STATUTORY BOOKS

Statutory books are the ones which needs to be kept or maintained by a company at its registered office. It records different aspects of the company's activities. There's a register of:

(1) Investments of the company not held in its name
(2) Mortgages and charges
(3) Members
(4) Debenture holders
(5) Foreign Members
(6) Minutes book
(7) Contracts, and the companies in which directors of the company are the interested
(8) Directors
(9) Director's shareholding
(10) Loans and guarantees, or the investment in shares and debentures of the firm in the same group.

BOOKS OF ACCOUNT

The Sec 209 (1) of the Companies Act 2013 requires every company to maintain proper books at its registered office which should disclose following necessary items:

(a) All sums of money that's received and spent by them, and the matters in respect of which the receipts and expenditure took place.
(b) All sales and purchase of goods made by the company.
(c) All assets and liabilities that are there of the company.
(d) Utilization of material or labour or other items of cost as may be prescribed by the Central Government.

Sub-section (2) of Section 209 provides that if a company which has a branch office, whether in India or outside then it's deemed to have complied with the conditions stated above. Sub-Section (3) of Section 209 provides that proper books of account are deemed to have been kept up by the company only if it satisfies the following conditions:

(i) The Profit and Loss Account and the Balance Sheet of the company should present its true and fair view of its financial position.
(ii) Books of accounts maintained both at the head office and branch offices, must explain their transactions.
(iii) Such books of account must have been kept on accrual basis and have been prepared according to the double entry system of accounting.

SHARE CAPITAL

According to the section 2(46) of the Company's Act 1956, share means a part in the share capital of the company and it also includes stock except where a distinction between stock and share capital is made expressed or implied.

Capital refers to the amount invested in the company so that it can carry on its activities. In a company capital refers to “share capital”. The capital clause in Memorandum of Association must state the amount of capital with which company is registered giving details of number of shares and the type of shares of the company. A company cannot issue share capital in excess of the limit specified in the Capital clause without altering the capital clause of the Memorandum of Association.

Categories of Share Capital

1. Nominal, authorised or registered capital means the sum mentioned in the capital clause of Memorandum of Association. It is the maximum amount which the company raises by issuing the shares and on which the registration fee is paid. This limit is cannot be exceeded unless the Memorandum of Association is altered.

2. Issued capital means that part of the authorised capital which has been offered for subscription to members and includes shares allotted to members for consideration in kind also.

3. Subscribed capital means that part of the issued capital at nominal or face value which has been subscribed or taken up by purchaser of shares in the company and which has been allotted.

4. Called-up capital means the total amount of called up capital on the shares issued and subscribed by the shareholders on capital account. i.e. if the face value of a share is Rs. 10/- but the company requires only Rs. 2/- at present, it may call only Rs. 2/- now and the balance Rs.8/- at a later date. Rs. 2/- is the called up share capital and Rs. 8/- is the uncalled share capital.

5. Paid-up capital means the total amount of called up share capital which is actually paid to the company by the members. The authorized capital is the capital limit authorized by the Registrar of Companies up to which the shares can be issued to the members / public, as the case may be. The paid up share capital is the paid portion of the capital subscribed by the shareholders. In India, there is the concept of par value of shares. Par value of shares means the face value of the shares. A share under the Companies act, can either of Rs. 10 or Rs. 100 or any other value which may be the fixed by the Memorandum of Association of the company. When the shares are issued at the price which is higher than the par value say, for example Par value is Rs. 10 and it is issued at Rs. 15 then Rs. 5 is the premium amount i.e., Rs. 10 is the par value of the shares and Rs. 5 is the premium. Similarily when a share is issued at an amount lower than the par value, say Rs. 8, in that case Rs. 2 is discount on shares and Rs. 10 will be par value.

6. Uncalled Capital is the remaining part of the issued capital which has yet not been called up by the company. It will be called upon by them as and when need for it will arise.

7. Reserve Capital is a part of the uncalled capital which is called upon only in the case of winding up of the company. A company may resolve to do so by passing a special resolution. It’s said to be set aside for the creditors.

Example: RK Ltd. had registered its capital as Rs. 40,00,000 divided into 4,00,000 shares of Rs. 10 each. On April 1, 2021, it invited applications for 2,00,000 shares of Rs. 10 each payable Rs. 5 on application. Rs. 3 on allotment. The remaining Rs. 2 per share is to be collected later in two calls. The company finalized the allotment on July 15, 2021, of 2,00,000 shares and rejected application for 50,000 shares. The applicants for 2,000 shares did not pay their allotment money. The Authorized capital, issued capital, subscribed capital Called up capital, Paid up capital and uncalled capital of the company shall be :

Authorized or Registered or Nominal Capital

4,00,000 shares of Rs. 10 each	=	40,00,000
Issued Capital		
2,00,000 shares of Rs 10 each	=	20,00,000
Subscribed Capital		
2,50,000 shares of Rs 10 each	=	25,00,000
Called up Capital		
2,00,000 shares of Rs. 10 each, Rs 8/share called	=	16,00,000
Paid-up Capital		
16,00,000 — (2,000 ×3)	=	15,94,000
Uncalled Capital		
2,00,000 shares of Rs 2 each	=	4,00,000

Classes of Shares

There are essentially two types of shares:

(i) Preference shares

(ii) Equity shares (ordinary shares).

***(i)* Preference shares:** According to Section 85 of The Companies Act, 1956, a preference share is one, which fulfills the following conditions:

(a) That it carries a preferential right to dividend to be paid either as a fixed amount or an amount calculated by a fixed rate which may be either free of or subject to income tax; and

(b) That with respect to capital it carries or will carry, on the winding-up of the company, the right to the repayment of capital before anything is paid to equity shareholders.

However, notwithstanding the above two conditions, a holder of the preference share may have a right to share fully or to a limited extent in the surpluses of the company as specified in the Memorandum or Articles of the company.

Preference Shares can be of various types which are as follows:

***(i)* Cumulative Preference Shares:** A cumulative preference share is one that carries the right to a fixed amount of dividend or dividend at a fixed rate. Such a dividend is payable even out of future profit if current year’s profits are insufficient for the purpose.